

Message Text

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PAGE 01 PARIS 21572 01 OF 03 211915Z

44

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PASS TREASURY FOR SYVRUD

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FRENCH ECONOMIC OUTLOOK FOR REMAINDER OF 1975

REF: A) PARIS 16062; B) HODGE-RIEMER TELECON, 8/15/75

SUMMARY: SINCE PREVIOUS OUTLOOK REPORT IN JUNE (PARIS 16062), PROSPECTS FOR FRENCH ECONOMY FOR REMAINDER OF 1975 HAVE BECOME MORE PESSIMISTIC -- TO THE DEGREE THAT GOF NOW SEEMS READY TO PLACE PRIMARY EMPHASIS OF ECONOMIC POLICY ON RESTIMULATION. ON JULY 29 THE PRESIDENT ANNOUNCED THAT NEW MEASURES, COSTING BETWEEN 4 AND 5 MILLION DOLLARS, WILL BE PROPOSED AND VOTED ON BY A SPECIAL SESSION OF PARLIAMENT IN EARLY SEPTEMBER. EMBASSY VIEW IS THAT THESE MEASURES WILL HAVE LITTLE EFFECT IN 1975 OR EVEN FIRST QUARTER 1976. PROSPECTS FOR REMAINDER OF YEAR ARE FOR A VERY MODEST "TECHNICAL" LIMITED OFFICIAL USE

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PAGE 02 PARIS 21572 01 OF 03 211915Z

IMPROVEMENT DURING LAST QUARTER; INVENTORIES ARE

APPROACHING NORMAL AGAIN IN MANY BRANCHES AND LAST APRIL'S CREDIT AND TAX INCENTIVES MAY STIMULATE SOME ADDITIONAL INVESTMENT. UNEMPLOYMENT WILL CONTINUE TO RISE, HOWEVER, HITTING ONE MILLION MARK AND BEYOND. POSITIVE TRENDS TO DATE MAY ALSO BE REVERSED. HIGHER IMPORT PRICES AND NO IMPROVEMENT IN EXPORT PROSPECTS WILL PRODUCE NEGATIVE FIGURES IN MONTHLY TRADE ACCOUNTING BY END OF YEAR, WHILE PRICE INCREASES IN KEY DOMESTIC GOODS (BREAD, CARS) ADDED TO HIGHER IMPORT COSTS, OBVIATE HOPE FOR FURTHER DOWNWARD TREND IN PRICE INFLATION.

FOREIGN TRADE.

AN IMPORTANT JUNCTURE MAY HAVE BEEN REACHED IN FRANCE'S FOREIGN TRADE SITUATION. FOR MOST OF THE FIRST HALF OF 1975, FOLLOWING 1974'S RECORD DEFICITS, TRADE SURPLUSES WERE BEING REGISTERED AS IMPORTS DECLINED STEADILY AND EXPORTS HELD GROUND. DROP IN IMPORTS CLEARLY LINKED TO RECESSION IN FRANCE AND CONSEQUENT SLUMP IN IMPORT DEMAND; STRENGTHENING IN FOREIGN EXCHANGE VALUE OF FRANC ALSO EXERTED DOWNWARD INCIDENCE ON FRANC IMPORT VALUES, WHILE SOFTENING ON WORLD COMMODITY MARKETS ALSO HAD EFFECT. NOW, HOWEVER, NEARLY YEAR-OLD DECLINE IN IMPORTS HAS GIVEN WAY TO A RISE, UP 10 PERCENT IN JUNE AND 7 PERCENT IN JULY (SEASONALLY ADJUSTED). AS EXPORTS LIKEWISE INCREASED IN THESE PAST TWO MONTHS, OVERALL TRADE SURPLUS CONTINUED TO BE REGISTERED. THIS MAY NOT BE THE CASE FOR TOO MUCH LONGER, HOWEVER. JULY EXPORTS WERE ONLY 2 PERCENT ABOVE LEVEL OF JULY 1974 AND BEGINNING OF RISE IN COST OF RAW MATERIALS IMPORTS, PLUS EXPECTED OIL PRICE HIKE, AUGUR ILL ON IMPORT SIDE. THERE APPEARS TO BE SCANT HOPE OF REALIZING ANY "EXPORT BOOM" IN TODAY'S DEPRESSED WORLD ECONOMY. NEW GERMAN MEASURES, DIRECTED MAINLY AT CONSTRUCTION, WILL HAVE NO POSITIVE EFFECT ON PURCHASES FROM FRANCE IN 1975. THUS WE EXPECT IMPORTS TO OVERTAKE EXPORTS ONCE AGAIN IN NEAR FUTURE AND REDUCE OVERALL TRADE SURPLUS FOR 1975 TO 4 BILLION FRANCS.

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PAGE 03 PARIS 21572 01 OF 03 211915Z

BALANCE OF PAYMENTS.

FIRST-QUARTER CURRENT DEFICIT (FF1.1 BILLION) WAS HALF THE SIZE OF THAT REGISTERED IN FOURTH QUARTER 1974, AND REPRESENTED DRAMATIC NARROWING FROM LAST YEAR'S AVERAGE QUARTERLY DEFICIT OF FF 7 BILLION. FINANCING OF CURRENT DEFICIT MORE THAN COVERED BY LONG-TERM CAPITAL INFLOWS DURING FIRST QUARTER, SO THAT BALANCE

ON CURRENT ACCOUNT AND LONG-TERM CAPITAL ("BASIC BALANCE") WAS IN SURPLUS FOR FIRST TIME IN NEARLY TWO YEARS. OFFICIAL HOPE IS NOW FOR CURRENT ACCOUNT BALANCE IN 1975. "IMPROVING" TRADE ACCOUNT WAS LARGELY BEHIND THESE POSITIVE DEVELOPMENTS, HOWEVER, SO THIS OPTIMISM MAY NOT BE MERITED.

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PAGE 01 PARIS 21572 02 OF 03 211921Z

44

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CONSUMER PRICES:

MONTHLY INCREASES IN CONSUMER PRICE INDEX HAVE BEGUN TO LEVEL OFF: 0.7 PERCENT IN BOTH MAY AND JUNE, 5.1 PERCENT OVER FIRST HALF. THIS COMPARES FAVORABLY WITH CONSUMER PRICE INFLATION OF SOME 15 PERCENT DURING 1974. PROGNOSTICS ARE MIXED: A JUNE DIP IN WHOLESALE PRICE INDEX MAY BE MORE THAN MATCHED BY JULY PRICE INCREASES IN ITEMS RANGING FROM BREAD TO AUTOMOBILES.

LATEST SURVEY OF RETAILERS SHOWS SALES PRICE EXPECTATIONS TO BE RELATIVELY LOW, BUT OFFICIAL FEAR THAT INFLATION IN FACT NOT BEATEN IS REFLECTED IN LONG DELAY IN SHIFTING EMPHASIS ON ECONOMIC POLICY, TIMING (WHY A JULY-SEPTEMBER DELAY?) AND RELATIVE TIMIDITY OF MEASURES TO BE TAKEN (NOT EVEN 2 PERCENT OF GNP). AT BEST, PRICE INFLATION WILL HOLD AT PRESENT LEVELS FOR REMAINDER OF YEAR.

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PAGE 02 PARIS 21572 02 OF 03 211921Z

SAVINGS AND CONSUMPTION.

AS REAL WAGES CONTINUE TO RISE FASTER THAN PRICES (15 PERCENT RATE IN FIRST QUARTER) CONSUMPTION HAS ALSO CONTINUED TO SHOW VERY MODERATE INCREASE, 1.6 PERCENT REAL GROWTH OVER FIRST HALF THIS YEAR. SAVINGS, HOWEVER, HAVE INCREASED FAR MORE DRAMATICALLY; FIRST FOUR MONTHS FIGURES (C/S) SHOW EXCESS OF SAVINGS BANK WITHDRAWALS OVER DEPOSITS SOME 73 PERCENT HIGHER THAN COMPARABLE PERIOD OF YEAR BEFORE.

UNLEASHING THESE FUNDS WILL DEPEND IN PART ON GOVERNMENT MEASURES (INCREASE IN DISPOSABLE INCOMES OF LEAST-FAVORED, REDUCTION IN HIGH COST -- 21 PERCENT -- OF CONSUMER CREDIT ARE AMONG MEASURES ANTICIPATED FOR SEPTEMBER) BUT EVEN MORE ON CONSUMER PSYCHOLOGY. JULY SURVEY SHOWS RETAILERS PESSIMISTIC AS TO FUTURE; UNEMPLOYMENT PROSPECTS, IMPORTANT MOTIVATION TO HIGH SAVINGS, MAY BE THE KEY FACTOR.

UNEMPLOYMENT.

JULY INCREASE ONLY 0.8 PERCENT, BUT BIG SURGE EXPECTED IN SEPTEMBER WHEN END OF VACATION PERIOD WILL MARK ENTRY OF MANY YOUNG PEOPLE INTO LABOR MARKET. AT SAME TIME, JOB OFFERS CONTINUE TO DECLINE AND THERE IS MUCH TALK IN MANAGEMENT CIRCLES (PATRONAT, CHAMBER OF COMMERCE) OF NEW LAYOFFS IN FALL. GOVERNMENT MIGHT EASE LATTER PROBLEM WITH MEASURES TO AID CORPORATE CASH FLOWS (SUCH AS ONE-MONTH DELAY IN TVA PAYMENTS), BUT UNDERLYING TREND REMAINS. MERELY EXTRAPOLATING FROM THE LABOR-MARKET TREND OF THE FIRST HALF OF 1975, UNEMPLOYMENT WILL REACH 1.2 MILLION (OR MORE THAN 5 PERCENT OF THE LABOR FORCE) BY THE END OF THE YEAR. THIS MAY BE A CONSERVATIVE PROJECTION, HOWEVER, GIVEN THE NUMBER OF YOUNG PEOPLE EXPECTED TO ENTER THE LABOR FORCE THIS FALL. CALLS FOR MILITANT ACTION HAVE THUS FAR GONE LARGELY UNHEEDED AS CONSEQUENCE OF "HARD TIMES," BUT THERE IS A POINT OF DESPERATION WHEN UNREST COULD MOUNT RAPIDLY. POOR JOB PROSPECTS WILL ALSO

CONTINUE TO DAMPEN CONSUMPTION, AS NOTED.
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PAGE 03 PARIS 21572 02 OF 03 211921Z

INVESTMENT.

GREATEST CHANGE SINCE JUNE REPORT IS IN INVESTMENT PROSPECTS. OFFICIAL STATISTICAL INSTITUTE (INSEE) NOW EXPECTS 8 PERCENT DECLINE IN VOLUME IN 1975. PERCENTAGE OF PRODUCERS DECLARING TO INSEE THEY UNABLE TO PRODUCE MORE DUE TO BOTTLENECKS DOWN TO 15 PERCENT, LOWEST SINCE 1962. THUS FAR, APRIL MEASURES TO STIMULATE INVESTMENT HAVE HAD ONLY PARTIAL SUCCESS (SUBSIDIZED LOAN PROGRAM IS SUBSCRIBED), DECEMBER CUTOFF FOR THUS FAR RARELY USED 10 PERCENT TAX CREDIT MAY STIMULATE SOME INCREASE IN LAST MONTHS OF FOURTH QUARTER. QUESTION IS, OF COURSE, HOW MUCH OF "RESPONSE" TO PROGRAMS IS MERELY BUSINESS TAKING ADVANTAGE OF GOVERNMENT PROGRAMS FOR PROJECTS ALREADY DECIDED ANYWAY?

INVENTORIES.

RETAILERS REPORT INVENTORIES APPROACHING NORMAL. INDUSTRIAL SURVEY REPORTS STOCKS OF INTERMEDIATE GOODS APPROACHING NORMAL AND THOSE OF CONSUMER GOODS STILL HIGH BUT DECLINING -- HEAVY EQUIPMENT STOCKS STILL ON A HIGH LEVEL. FAVORABLE TRENDS REPORTED ARE CLEARLY DUE TO DECLINE IN PRODUCTION RATHER THAN INCREASE IN

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PAGE 01 PARIS 21572 03 OF 03 211924Z

43
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DEMAND. ORDERS REMAIN LOW.

INDUSTRIAL PRODUCTION.

THIS KEY INDEX HAS BEEN AMONG MOST NEGATIVE:
OVERALL PRODUCTION HAS DWINDLED TO LEVEL OF THREE YEARS
AGO. FIGURES FOR SECOND QUARTER DOWN SOME 9 PERCENT
OVER AVERAGE FOR PREVIOUS YEAR -- WITH ONLY SLIGHT UP-
WARD ADJUSTMENT (DUE TO SOME LAST-QUARTER EFFECT OF
INVESTMENT INCENTIVES AND SOME INVENTORY ADJUSTMENT)
LIKELY THIS YEAR.

EXTERNAL FINANCIAL PRESSURES.

BY REJOINING "SNAKE" GOF HAS SUBJECTED ITSELF TO
STRONG RESTRAINTS ON MONETARY POLICY. FRENCH INTEREST
RATES ARE MOST LIKELY CONDEMNED TO REMAIN HIGH, AND
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PAGE 02 PARIS 21572 03 OF 03 211924Z

FEAR OF PROVOKING A NEW BURST OF INFLATION CONTINUE TO
ACT AS COUNTERFORCE TO THOSE IN MAJORITY WHO WOULD PRE-
FER STRONGER ACTION TO RESTIMULATE ECONOMY. RECENT
SHARP DECLINES IN RATES IN FRG AND ELSEWHERE MAY GIVE
GOF GREATER LEEWAY IN MONETARY POLICY, HOWEVER.

EFFECT OF ABOVE ON 1975 GROWTH RATES.

ALTHOUGH GOVERNMENT HAS NOT FORMALLY DISCARDED ITS
LATEST PROJECTION OF 2.1 PERCENT GROWTH IN GIP DOWN
FROM 4.2 ORIGINALLY TARGETED, MOST LIKELY WILL BE
BETWEEN 0 AND MINUS 1.6. NOTE: GIP, OR "GROSS INTERNAL
PRODUCT," IS A PECULIARLY FRENCH CONCEPT -- THE FRENCH

TERM IS PRODUCTION INTERIEURE BRUTE -- AND NOT COMPARABLE TO GNP IN OTHER SYSTEMS OF NATIONAL ACCOUNTING. THE MAIN DIFFERENCE IS THE OMISSION FROM THE FRENCH AGGREGATE OF SERVICES PERFORMED BY GOVERNMENT EMPLOYEES AND DOMESTIC SERVANTS.

SUMMARY OF KEY ECONOMIC INDICATORS

FOR 1975 (CHANGES IN PERCENT AS

INDICATED)

PRELIM.

FIGURES FORECASTS:

AND ESTI- YEAR

MATES GOVT. PRIVATE

1ST HALF

REAL GIP(1) - 2.0 2.1 0 TO - 1.6

IMPORTS (2) -13.0 - 3.7 -3.0

EXPORTS (2) - 1.4 1.1 0.5

CONSUMER

PRICES (3) 5.1 10.0 10 TO 11.5

TOTAL

CONSUMPTION

(2) 1.4 2.6 2.2

REAL INVEST-

MENT (4) -- -8.0 -9.7

INDUSTRIAL

PRODUCTION(2) - 7.8 -- -7.4

SAVINGS (5) 51.5 -- --

UNEMPLOYMENT (2) 43.8 -- 85

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PAGE 03 PARIS 21572 03 OF 03 211924Z

BALANCE OF

PAYMENTS (6) -FF 1.1 0 --

BILLION

(1) AVERAGE FOR PERIOD COMPARED TO AVERAGE LEVEL FOR

1974.

(2) AVERAGE LEVEL FOR FIRST HALF 1975 COMPARED TO AVERAGE LEVEL FOR SECOND HALF 1974 (SEASONALLY ADJUSTED); AVERAGE FOR YEAR 1975 COMPARED TO AVERAGE FOR YEAR 1974.

(3) ABSOLUTE CHANGE DURING PERIOD.

(4) BASED ON JUNE SURVEY OF BUSINESS INTENTIONS FOR YEAR.

(5) AVERAGE NET DEPOSITS FOR FIRST 4 MONTHS OF 1975 COMPARED TO AVERAGE FOR SECOND HALF 1974 (UNADJUSTED).

(6) CURRENT-ACCOUNT DEFICIT (PRELIMINARY FIGURES,
AVAILABLE FOR FIRST QUARTER 1975 ONLY).
GAMMON

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